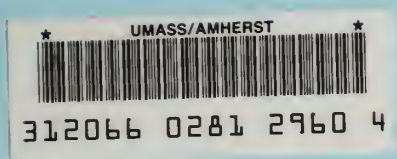


MASS. TC60.4: 998



THE MASSACHUSETTS TURNPIKE AUTHORITY
1998 AUDITED
FINANCIAL STATEMENTS

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS

FOR THE YEARS ENDING
DECEMBER 31, 1998 AND 1997

MASSACHUSETTS TURNPIKE AUTHORITY
AND
MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

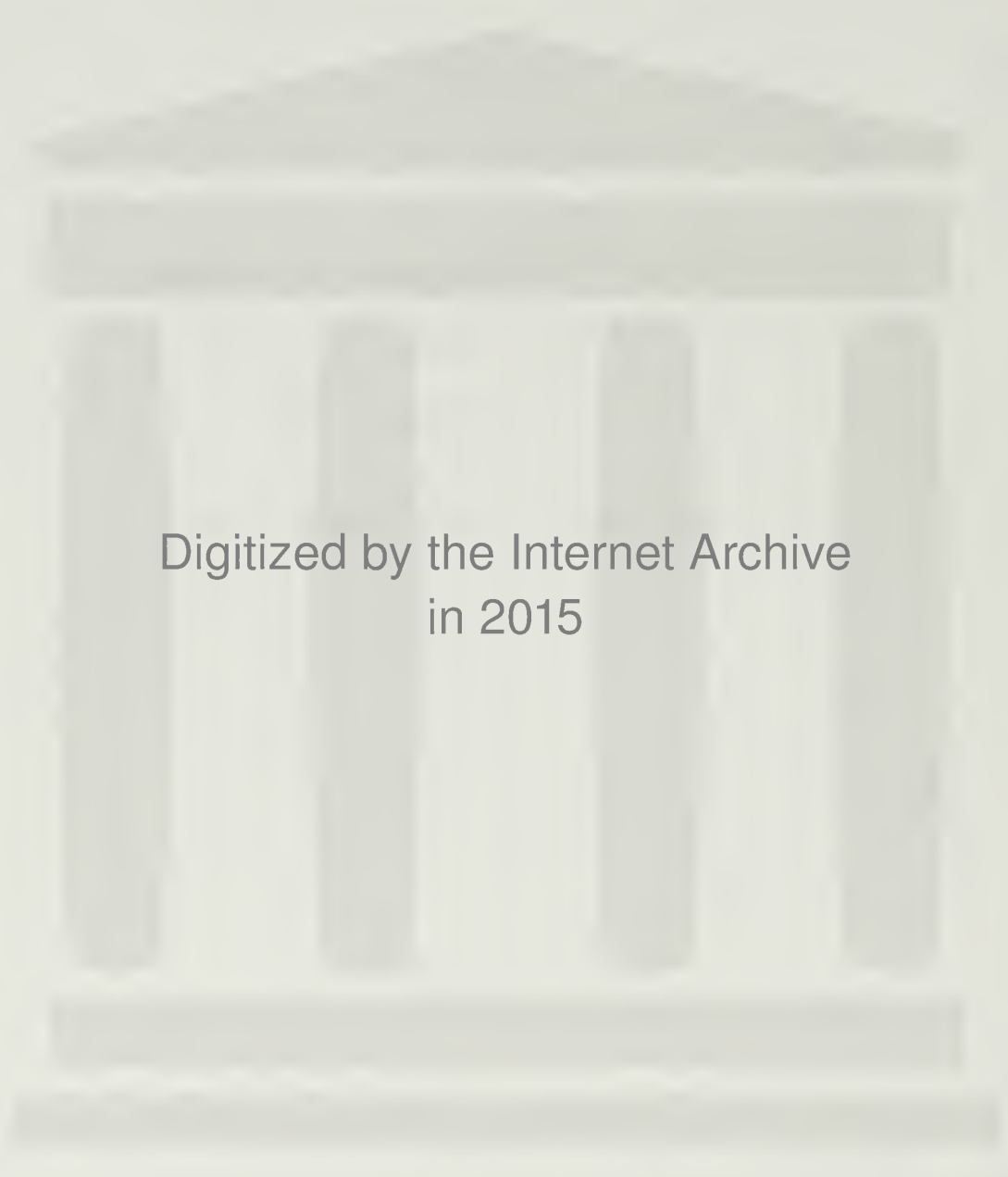


MASSACHUSETTS TURNPIKE AUTHORITY

Financial Statements

December 31, 1998 and 1997

(With Independent Auditors' Reports Thereon)



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MASSACHUSETTS TURNPIKE AUTHORITY

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the accompanying balance sheet of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of December 31, 1998 and 1997, and the related statement of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board ("GASB") Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the Year 2000 issue. The Authority has included such disclosures in note 13. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Authority's disclosures with respect to the Year 2000 issue made in note 13. Further, we do not provide assurance that the Authority is, or will be, Year 2000 ready, that the Authority's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business will be Year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, at December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in notes 3 and 9, respectively, the Authority adopted the provisions of GASB Statements Nos. 31 and 32 in fiscal 1998, and as discussed in note 7, adopted GASB Statement No. 27 in fiscal 1997.





Peat Marwick LLP

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 1999, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations and contracts.

KPMG Peat Marwick LLP

March 11, 1999

MASSACHUSETTS TURNPIKE AUTHORITY

Balance Sheets

December 31, 1998 and 1997

Assets	1998	1997
Current assets:		
Cash and cash equivalents (note 3)	\$ 15,485,412	30,204,495
Restricted investments (note 3)	207,718,286	728,187,948
Receivables	9,065,357	6,774,427
Inventories	1,158,296	1,347,996
Prepaid expenses	119,422	825,294
Total current assets	<u>233,546,773</u>	<u>767,340,160</u>
Restricted investments (note 3)	480,734,135	603,718,813
Investments of deferred compensation plans (note 9)	—	17,803,975
Property, plant and equipment, net (note 4)	1,474,752,665	1,482,838,916
Other assets	<u>5,381,088</u>	<u>5,299,874</u>
Total assets	<u>\$ 2,194,414,661</u>	<u>2,877,001,738</u>
Liabilities and Fund Equity		
Current liabilities:		
Accounts payable	\$ 7,646,617	9,395,065
Accrued payroll	1,235,250	1,059,988
Compensated absences	7,100,067	6,777,243
Other accrued expenses, deferred credits and miscellaneous liabilities	27,379,444	30,086,824
Amounts payable from restricted investments:		
Current portion of bonds and notes payable	80,235,000	—
Accrued interest	42,165,458	28,187,948
Due to the Commonwealth of Massachusetts (note 6)	—	700,000,000
Total current liabilities	<u>165,761,836</u>	<u>775,507,068</u>
Accrued interest on capital appreciation bonds (note 5)	9,554,287	2,388,572
Deferred compensation benefits payable (note 9)	—	17,803,975
Bonds and notes payable, net (note 5)	<u>1,643,337,984</u>	<u>1,713,685,737</u>
Total liabilities	<u>1,818,654,107</u>	<u>2,509,385,352</u>
Fund equity:		
Retained earnings	<u>375,760,554</u>	<u>367,616,386</u>
Total fund equity	<u>375,760,554</u>	<u>367,616,386</u>
Commitments and contingencies (notes 10, 11, 12 and 13)		
Total liabilities and fund equity	<u>\$ 2,194,414,661</u>	<u>2,877,001,738</u>

See accompanying notes to financial statements

MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Revenues, Expenses and Changes in Retained Earnings

Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Operating revenues:		
Toll revenue, net	\$ 177,440,443	163,008,116
Restaurants, concessions and service stations	6,065,238	5,796,618
Rentals	6,584,571	5,492,896
Court fines	4,196,415	4,686,216
Other	2,872,233	2,567,439
	<u>197,158,900</u>	<u>181,551,285</u>
Total operating revenues		
Operating expenses:		
Operations and public protection	72,357,424	71,340,785
Repair and reconstruction	16,215,538	23,074,862
Administration	21,098,014	26,038,251
Retirement	2,583,296	2,439,803
Depreciation and amortization	44,423,739	29,783,664
	<u>156,678,011</u>	<u>152,677,365</u>
Total operating expenses		
Operating income	40,480,889	28,873,920
Nonoperating revenue and expense:		
Investment income	71,376,524	33,160,936
Interest expense	<u>(103,713,245)</u>	<u>(51,800,109)</u>
Total nonoperating expense	(32,336,721)	(18,639,173)
Net income	8,144,168	10,234,747
Retained earnings, beginning of year	<u>367,616,386</u>	<u>357,381,639</u>
Retained earnings, end of year	<u>\$ 375,760,554</u>	<u>367,616,386</u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Statements of Cash Flows

Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Operating income	\$ 40,480,889	28,873,920
Adjustments to reconcile operating income to net cash (used for) provided by operating activities:		
Depreciation and amortization	44,423,739	29,783,664
Changes in operating assets and liabilities:		
Receivables	(1,274,225)	(1,447,269)
Inventory	189,700	(61,184)
Prepaid expenses	705,872	(305,942)
Other assets	(81,214)	(1,205,116)
Accounts payable	(1,748,448)	(840,628)
Accrued payroll	175,262	214,951
Compensated absences	322,824	1,126,416
Other accrued expenses, deferred credits and miscellaneous liabilities	(2,707,380)	4,299,249
Due to the Commonwealth of Massachusetts	(700,000,000)	—
Net cash (used for) provided by operating activities	<u>(619,512,981)</u>	<u>60,438,061</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(36,245,761)	(61,070,211)
Interest on bonds and notes	(72,682,774)	(25,936,528)
Proceeds from debt issuance, net of discounts and issuance costs	—	1,669,540,539
Defeasance of debt	—	(555,909,413)
Net cash (used for) provided by capital and related financing activities	<u>(108,928,535)</u>	<u>1,026,624,387</u>
Cash flows from investing activities:		
Purchases of investments	(2,889,771,152)	(8,762,690,200)
Sales and maturities of investments	3,533,672,084	7,645,130,555
Investment income	69,821,501	32,672,617
Net cash provided by (used for) investing activities	<u>713,722,433</u>	<u>(1,084,887,028)</u>
Net (decrease) increase in cash	(14,719,083)	2,175,420
Cash at beginning of year	<u>30,204,495</u>	<u>28,029,075</u>
Cash at end of year	<u>\$ 15,485,412</u>	<u>30,204,495</u>

See accompanying notes to financial statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

(1) Organization

The Massachusetts Turnpike Authority (the "Authority") was established by Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts (the "Commonwealth"). It is a public instrumentality that was authorized and empowered to construct, maintain, repair and operate a toll express highway, known as the Massachusetts Turnpike ("Turnpike"). Chapter 598 of the Acts of 1958 authorized and empowered the Authority to acquire from the City of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston, the Callahan Tunnel, and to operate and maintain both facilities. Chapter 102, as amended by Chapter 273 of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. Since this date, its operations have been included in the accompanying financial statements.

In March 1997, the Commonwealth established pursuant to Chapter 3 of the Acts of 1997, a new enabling act, and repealed the two prior special acts noted above that previously had governed the Authority. The new enabling act establishes two separate systems to be owned and operated by the Authority, the Metropolitan Highway System and the Western Turnpike.

The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel, the Central Artery North Area (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.

The Authority's financial statements are incorporated into the financial statements of the Commonwealth as the Commonwealth is legally obligated for the Authority's bond anticipation notes in the event of default. The Authority, therefore, meets the criteria of a component unit of the Commonwealth.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles applicable to government enterprise funds. The following is a summary of the Authority's significant accounting policies:

Basis of Presentation

The Authority's financial statements are reported on the accrual basis of accounting as specified by the Governmental Accounting Standards Board's requirements for an enterprise fund. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

The Authority's policy is to treat unrestricted investments with a maturity date of three months or less when purchased as cash equivalents for purposes of the cash flow statements.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

Investments

Investments are stated at fair value. The cost of securities sold is based upon the specific identification method.

Inventories

Inventories consist primarily of sodium chloride, bulk gasoline, highway guardrails, and printed toll tickets. Inventories are valued at cost, determined by the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Infrastructure consists of the initial construction costs to build the highways, structures, pavement, shoulders, service areas and other similar costs. Improvements consist of reconditioning of the highway structure and improvements to protection devices, lighting systems, signage and other similar costs.

The costs of normal maintenance and repairs are not capitalized. The cost of certain equipment used in administration and maintenance such as police and other light vehicles and office equipment have not been capitalized since the cost of such items is not material.

Depreciation

The Authority provides for depreciation using the straight-line method. Depreciation is intended to distribute the cost of depreciable properties over the following estimated average useful lives:

	<u>Years</u>
Infrastructure	50
Buildings	30
Improvements to Turnpike and Tunnels	30
Equipment	5-12

Interest Costs on Construction

Interest is capitalized on fixed assets constructed with borrowed money. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal 1998, there was no net interest cost capitalized as the amount was not material. In fiscal year 1997, net interest cost capitalized amounted to \$2,309,963 which was comprised of interest expense of \$2,672,212 less interest income of \$362,249.

Amortization

Revenue bond discounts are deferred and amortized on a weighted-average basis over the term of the bonds. Unamortized amounts are presented as a reduction of the face amount of bonds payable.

Costs related to the issuance of bonds are amortized on a weighted-average basis over the life of the bonds. The weighted average amortization method approximates the effective interest method. Issuance costs are recorded as other assets.

The difference between the reacquisition price and net carrying amount of defeased bonds is deducted from, or added to the refunding debt liability and amortized on the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

Compensated Absences

Certain employees of the Authority accumulate unused vacation and sick time (subject to certain limitations) to be used at a later date or paid in cash upon termination and/or retirement from the Authority. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date based on years of service (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

Reclassifications

Certain reclassifications were made to fiscal year 1997 financial statements to conform to the fiscal year 1998 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits and Investments

The Authority is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds or notes of public agencies, states or municipalities, bank time deposits, guaranteed interest contracts, money market accounts, interest rate swap agreements, repurchase agreements or commercial paper, notes, bonds or other obligations of any corporation that has obtained specific ratings.

(a) *Deposits*

A summary of the Authority's deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3) as of December 31, 1998 and 1997 are as follows. Managed investment pools are not categorized.

				1998	
Category				Total Bank Balance	Carrying Amount
1	2	3			
Cash and cash equivalents	\$ <u>361,758</u>	<u>—</u>	<u>15,101,810</u>	\$ 15,463,568	15,216,896
Not categorized:					
Money market mutual funds				<u>268,516</u>	<u>268,516</u>
Total				\$ 15,732,084	<u>15,485,412</u>

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

1997				
	Category			
	1	2	3	
Cash and cash equivalents	\$ 475,895	-	29,947,876	\$ 30,423,771
Not categorized:				
Money market mutual funds				173,752
Deferred compensation plan				17,803,975
Total				\$ 48,401,498

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

(b) Investments

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by the Authority's trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name:

1998				
	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$ —	228,893,673	—	\$ 228,893,673
U.S. Government Agency obligations	—	166,101,115	—	166,101,115
Guaranteed interest contracts	—	161,332,897	—	161,332,897
	\$ —	556,327,685	—	556,327,685
Not categorized:				
Money market mutual funds				132,124,736
Total				\$ 688,452,421

1997					
	Category			Total Carrying Amount	Fair Value
	1	2	3		
U.S. Government obligations	\$ -	1,056,095,505	-	\$ 1,056,095,505	1,050,310,551
U.S. Government Agency obligations	-	161,223,214	-	161,223,214	159,449,950
Guaranteed interest contracts	-	114,588,042	-	114,588,042	114,588,042
Total	\$ -	1,331,906,761	-	\$ 1,331,906,761	1,324,348,543

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

The Authority adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments are recorded at fair value beginning in fiscal year 1998. In 1997, investments were recorded at amortized cost. Fair value is determined based on quoted market price. This statement was not retroactively adopted, since the effect on the prior year was not material. The difference between the amortized cost and fair value of investments at December 31, 1998 was approximately \$5.2 million. This amount was recorded as an unrealized gain and included in investment income for the year ended December 31, 1998.

The following summarizes cash and investments as of December 31 by the various funds and accounts established. Investments are restricted under various loan agreements:

	<u>1998</u>	<u>1997</u>
Revenue Fund	\$ 18,103,754	15,375,075
1996 BAN Fund	35,446,849	48,258,956
General Fund	135,971,328	111,915,493
Operating Fund	11,905,589	3,604,553
Senior Debt Service Fund	253,961,111	252,411,823
Senior Debt Service Reserve Fund	132,042,351	129,345,857
Subordinated Debt Service Fund	39,204,986	43,805,631
Subordinated Debt Service Reserve Fund	15,810,494	15,583,365
Capital Reinvestment Fund	10,328,910	20,803,663
Bond Proceeds Fund:		
Capital Account	51,103,607	16,026,615
Commonwealth Payment Account	<u>58,854</u>	<u>704,980,225</u>
Totals	\$ <u>703,937,833</u>	<u>1,362,111,256</u>

(4) Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	<u>1998</u>	<u>1997</u>
Land	\$ 82,459,605	82,182,210
Infrastructure	1,355,356,948	1,341,236,248
Improvements	438,351,085	419,074,565
Buildings	42,963,636	42,859,823
Equipment	<u>31,833,465</u>	<u>29,366,132</u>
	1,950,964,739	1,914,718,978
Less accumulated depreciation	<u>(476,212,074)</u>	<u>(431,880,062)</u>
Net property, plant and equipment	\$ <u>1,474,752,665</u>	<u>1,482,838,916</u>

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

(5) Bonds and Notes Payable

Long-term debt at December 31, 1998 and 1997 consisted of the following:

	<u>1998</u>	<u>1997</u>
Revenue Bonds:		
Metropolitan Highway System:		
1997, Series A, 5.05% to 5.65%, issued September 24, 1997 due 2010 to 2037	\$ 1,183,046,617	1,183,046,617
1997, Series C, 5.40% to 5.55%, issued September 24, 1997 due 2016 to 2023	89,136,006	89,136,006
Western Turnpike:		
1997, Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017)	297,520,000	297,520,000
Subordinated debt:		
Metropolitan Highway System:		
1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037	194,680,000	194,680,000
Guaranteed Bond Anticipation Notes:		
Metropolitan Highway System:		
1996 Series A, 5%, issued January 15, 1996 due 1999	<u>55,905,000</u>	<u>55,905,000</u>
Subtotal	1,820,287,623	1,820,287,623
Less:		
Current portion	(80,235,000)	—
Unamortized bond discounts, net	(98,273,784)	(101,514,530)
Unamortized difference between reacquisition price and net carrying amount of defeased bonds	<u>1,559,145</u>	<u>(5,087,356)</u>
Long-term portion of bonds and notes, net	\$ <u>1,643,337,984</u>	<u>1,713,685,737</u>

During the year ended December 31, 1997, the Authority issued \$1,764,382,623 in Revenue Bonds, 1997 Series. The Series A and B Bonds, the Series C Bonds and the Western Turnpike Bonds refunded the 1993 Series A Revenue Bonds and a portion of the 1996 Series A Guaranteed Bond Anticipation Notes and financed an aggregated \$700 million payment by the Authority to the Commonwealth during 1998 for the Central Artery/Tunnel project costs (see note 6).

On January 15, 1996, the Authority issued \$259,315,000 in Guaranteed Bond Anticipation Notes, Series A, which mature on June 1, 1999 and are unconditionally guaranteed by the Commonwealth. During 1997, \$203,410,000 of these notes were advance refunded by the Authority with the proceeds from the Metropolitan Highway System 1997 Series A Revenue Bonds.

Interest is payable semiannually on all debt, except on Series C Bonds and \$20,685,000 of Series A Bonds (capital appreciation bonds). Accrued interest on capital appreciation bonds amounted to \$9,554,287 and \$2,388,572 at December 31, 1998 and 1997, respectively, and is payable upon maturity of the related bonds.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

Revenue Bonds are collateralized by a lien and pledge on substantially all of the Authority's cash and revenues.

Debt service requirements on bond anticipation notes and revenue bonds subsequent to December 31, 1998 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 80,235,000	76,331,315	156,566,315
2000	—	82,514,714	82,514,714
2001	7,945,000	82,294,240	90,239,240
2002	12,295,000	81,732,580	94,027,580
2003	13,050,000	81,029,257	94,079,257
Thereafter	<u>1,706,762,623</u>	<u>2,095,317,964</u>	<u>3,802,080,587</u>
Total	\$ <u>1,820,287,623</u>	<u>2,499,220,070</u>	<u>4,319,507,693</u>

In October 1997, approximately \$555,909,000 of the net proceeds from the issuance of the 1997 Series Revenue Bonds were used to purchase U.S. Government securities which were then deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the 1993 Series A Revenue Bonds and \$203,410,000 of the Guaranteed Bond Anticipation Notes. As a result, the 1993 Revenue Bonds and that portion of the Guaranteed Bond Anticipation Notes are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$267 thousand and resulted in an economic loss of approximately \$4.8 million.

At December 31, 1998, the principal amounts outstanding on revenue bonds and notes outstanding that are considered defeased in substance are as follows:

<u>Description</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>Principal Amount Outstanding</u>
1990 Series A	1999 to 2020	100% to 102%	\$ 43,200,000
1993 Series A Serial	1999 to 2008	100% to 102%	94,800,000
1993 Series A Term	2013 to 2023	100%	263,355,000
1996 Guaranteed Bond Anticipation Notes	1999	100%	203,410,000

Outstanding bonds that are redeemable before their scheduled due dates are as follows at December 31, 1998:

<u>Description</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>Outstanding Principal Amount</u>
Metropolitan Highway System 1997 Series A & B	2010-2037	100 to 102%	\$ 1,377,726,617
Western Turnpike 1997 Series A	1999-2017	100%	297,520,000

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

(6) Due to the Commonwealth

At December 31, 1997, the Authority was obligated to pay \$700 million to the Commonwealth no later than December 31, 1998 toward the acquisition costs of the Ted Williams Tunnel. The Authority had issued 1997 Series A and B bonds to fund this obligation. The Authority paid \$100 million in June 1998 and \$600 million in December 1998.

(7) Employee Benefit Plans

Pension Plan

During 1997, the Authority adopted GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which modified the disclosures required for the Authority's retirement plan.

Plan Description

The Massachusetts Turnpike Authority Employees' Retirement Plan (the "Plan"), is a single employer contributory defined benefit pension plan administered by the Massachusetts Turnpike Authority Employees' Retirement System ("System"). The Plan provides retirement, disability and death benefits to plan members and beneficiaries.

Massachusetts General Laws (MGL), principally Chapter 32, establishes and amends benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Massachusetts Turnpike Employees' Retirement System at the State Transportation Building, 10 Park Plaza, Boston, MA, 02116.

Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. Depending upon their employment date, active plan members are required to contribute 5% to 9% of their annual covered compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. The Authority is required to contribute amounts pursuant to MGL section 22(6A) of Chapter 32 which is the normal cost plus estimated expenses, less a 10-year level amortization of the January 1, 1998 surplus with interest to July 1999. Such amounts represented approximately 6% of covered payroll at January 1, 1998.

Annual Pension Cost

The annual required contribution for the current year was determined as part of the January 1, 1998, actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return, and b) projected salary increases of 5% per year. Both (a) and (b) include an inflation component of 5%. Liabilities for cost of living increases have been approximated, assuming an annual cost of 3% on the first \$9,000 annual pension. Assets are valued at market value.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

Three Year Trend Information

<u>Fiscal Year Ending December</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1998	\$ 2,888,871	100%	
1997	\$ 2,947,598	100%	-
1996	\$ 5,619,856	100%	-

The required contributions were \$2,888,871, \$2,657,949 and \$2,443,952 in 1998, 1997 and 1996, respectively.

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded/ (Surplus) Actuarial Accrued Liability (UAAL) (c) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (d)</u>	<u>Unfunded/ (Surplus) Actuarial Liability as a Percentage of Covered Payroll (c/d)</u>
1/1/98	\$ 149,546,125	\$ 143,697,064	\$ (5,849,061)	104.1%	\$ 48,254,760	(12.1)%
1/1/97	128,744,051	132,298,183	3,554,132	97.3%	48,878,082	7.3%
1/1/96	114,569,547	117,383,869	2,814,322	97.6%	54,849,372	5.1%

Health Benefit Plan

In addition to the pension plan, the Authority has voluntarily established a separate plan to provide certain health care benefits to current employees. The fair value of the assets held for this plan are approximately \$3.2 million at December 31, 1998. Nothing was contributed in 1998 and 1997. Current payments related to self-insured health benefits are funded from operations on a pay-as-you-go basis. Total cost for fiscal year 1998 approximated \$696,000.

(8) Other Post-Employment Benefits

In addition to the pension benefits described in note 7, the Authority has voluntarily established a plan to provide certain health care benefits to its retired employees. The Authority's contribution to the plan is advance funded on an actuarially determined basis using the individual entry age normal cost method. The significant actuarial assumptions, used for the January 1, 1998, actuarial valuation, included (a) 8.5% investment rate of return, (b) projected salary increases of 5% per year, and (c) future increases in claim costs of 5-12%.

The number of plan participants is 1,905 of which 1,074 are active employees. There was no actuarially required contribution for 1998 and nothing was contributed in 1998 and 1997.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

The funded status of the plan at January 1, 1998 is as follows:

Actuarial accrued liability:	
Actives	\$ 12,717,260
Inactives	<u>15,003,753</u>
Total	27,721,013
Actuarial value of assets	<u>33,815,332</u>
Funded actuarial accrued asset	\$ <u>6,094,319</u>
Funded ratio	<u>122%</u>

Plan members contribute 10-20% of premiums depending on their union or nonunion status and the type of plan selected.

Aside from the Plan, the Authority expensed on a pay-as-you-go basis approximately \$1,920,000 and \$1,760,000 in 1998 and 1997, respectively, for post-employment healthcare benefits.

(9) Deferred Compensation Plans

During fiscal year ended December 31, 1998, the Authority amended its deferred compensation plan such that the plan's assets are now held in trust for the exclusive benefit of participants and their beneficiaries. In addition, the Authority is not actively involved in managing the plan's assets. Accordingly, in 1998, under GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the Authority eliminated from its financial statements the plan assets and related liabilities, which amounted to \$17,803,975 at December 31, 1997.

(10) Leases

The Authority has commitments under operating leases for administrative office space and automatic toll equipment. These operating leases expire on various dates through June 2003 and are generally expected to be renewed or replaced by similar leases. Lease expense in 1998 and 1997 was \$960,182 and \$906,706, respectively, of which \$797,819 and \$545,478, respectively, was paid for the benefit of the Commonwealth for office space in a state owned building. Future minimum lease payments under the above leases are as follows:

1999	\$ 1,174,196
2000	941,396
2001	941,396
2002	941,396
2003	<u>941,396</u>
Total	\$ <u>4,939,780</u>

The Authority leases property and air rights to others. During 1998 and 1997, the Authority earned \$6,584,571 and \$5,492,896 in rental income, respectively.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

The following is a schedule by years of minimum future rental income on noncancelable operating leases as of December 31, 1998:

1999	\$ 6,604,488
2000	6,657,300
2001	6,837,753
2002	7,077,401
2003	<u>7,400,232</u>
Total	\$ <u>34,577,174</u>

(11) Risk Management

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Routine litigation also includes disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels and turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance. The Authority has obtained health coverage for most active employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. The Authority purchases excess workers' compensation insurance in the commercial market for losses exceeding a retention amount of \$400,000. The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Insurance in 1998 has not changed significantly from the prior year.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. The Authority records such liabilities as accrued expenses. Changes in the claims liability insurance reserves in fiscal 1998 and 1997 were as follows:

	<u>Health</u>	<u>Workers' Compensation</u>
Liability balance, December 31, 1997	\$ 193,207	14,029,928
Provision to record estimated losses	1,648,240	2,835,295
Payments	<u>(1,725,523)</u>	<u>(2,362,897)</u>
Liability balance, December 31, 1997	115,924	14,502,326
Provision to record estimated losses	2,003,822	2,712,898
Payments	<u>(1,754,273)</u>	<u>(3,547,000)</u>
Liability balance, December 31, 1998	\$ <u>365,473</u>	<u>13,668,224</u>

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

(12) Commitments

The Authority enters into construction contracts for the Metropolitan Highway System and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 1998 approximated \$9.8 million. Projected construction costs and repair and reconstruction for 1999 approximate \$47.6 million.

In addition, the Authority has committed to pay the Commonwealth \$355 million by April 30, 1999, \$100 million by June 30, 1999 and \$100 million by June 30, 2000 related to the acquisition of the Central Artery. The Authority issued 1999 Series A bonds to fund this obligation (see note 14).

On July 31, 1998, the Massachusetts legislature enacted Chapter 235 of the Acts of 1998 ("Chapter 235"), which, among other matters, authorized the Commonwealth, acting through the Secretary of Administration and Finance, to enter into a contract with the Authority providing for payments, by the Commonwealth to the Authority related to the cost of the operation and maintenance of the Central Artery and CANA, as certified annually by the Authority. Chapter 235 establishes the following payment schedule:

- Not less than \$2 million on account of fiscal 2000,
- Not less than \$5 million on account of each fiscal year thereafter prior to the transfer of the final segments of the Central Artery and CANA to the Authority, and
- Not more than \$25 million on account of each fiscal year during and after such transfer.

Chapter 235 provides that the term of the contract shall extend until the end of the 40th fiscal year following the transfer.

(13) Year 2000

The "Year 2000 Issue" refers to the potential inability of many computer programs, electronic data processing systems and equipment with embedded microchips to function properly due to certain date related programming conventions. The most significant of these issues arises because many existing programs use only the last two digits to refer to a year. Therefore, these programs may recognize a date using "00" as the year 1900 rather than the year 2000. The Year 2000 issue could, if not corrected, result in system failures or miscalculations causing disruptions in operations and normal business activities.

The Authority has begun to assess and remediate the year 2000 issue. The Authority is currently in the process of installing a new electronic toll collection system and upgrading its existing manual toll collection equipment, which is not year 2000 compliant. All of this new equipment is expected to be operational by July 1999, and year 2000 compliant. In addition, the Authority is in the process of upgrading its accounting and financial systems to install year 2000 compliant hardware and software. To date, the Authority has installed or is in the process of installing modules for non-toll revenues, financial statements, accounts payable, and purchasing. An accounts receivable module is in the process of being implemented and is expected to be completed by the end of the first fiscal quarter of 1999. Finally, human resource payroll software is also in the process of being installed. The Authority projects that this software will be installed and operational within the third fiscal quarter of 1999.

MASSACHUSETTS TURNPIKE AUTHORITY

Notes to Financial Statements

December 31, 1998 and 1997

The Authority has hired a consultant to assist it in addressing the year 2000 issue. While departments have been surveyed for potential year 2000 issues for all mission critical systems, the Authority has not yet made a complete assessment of the scope of the potential issue, other than described above. The Authority has also begun to prepare contingency plans for addressing year 2000 issues. The Authority's efforts to date have included attempts to monitor compliance by the Authority's vendors and suppliers.

Through December 31, 1998, the Authority had expended approximately \$2.9 million on the upgraded systems and equipment described above, a component of which upgrading was designed to achieve year 2000 compliance. An additional \$1.6 million has been budgeted for 1999 for further systems and equipment upgrades, including year 2000 compliance efforts. Additional amounts may be needed to address the year 2000 issue as a component of these upgrades.

The Authority is working diligently to address the year 2000 issue. However, because of the inherent complexity of the task, the Authority at this stage in its assessment and remediation efforts cannot provide complete assurance that the year 2000 issue will not cause some disruption in operations or financial activities. Although the Authority is monitoring the remediation activities of organizations with which it transacts business or conducts operations, failures by certain critical organizations to resolve their year 2000 issues could also cause disruptions to the Authority's operations or financial activities.

(14) Subsequent Events

On January 1, 1999, the Authority extinguished \$14,785,000 of Western Turnpike Series A bonds. This represents all of the January 1, 2000 payment and a portion of the January 1, 2001 payment. The loss recognized from early extinguishment was not material.

On March 11, 1999, the Authority issued approximately \$808,975,000 in Metropolitan Highway System Revenue Bonds, 1999 Series A Subordinated. These bonds were issued to refund the 1996 Series A Guaranteed Bond Anticipation Notes and to pay to the Commonwealth amounts to be used by the Commonwealth to pay certain costs relating to the Central Artery/Tunnel Project.

MASSACHUSETTS TURNPIKE AUTHORITY

Supplementary Information

December 31, 1998 and 1997

Under the provisions of the 1997 Series Revenue Bonds dated October 2, 1997, the Authority is required to maintain separate accounting records for the Western Turnpike and Metropolitan Highway System as well as the Authority's general fund.

In order to present the Authority's 1998 and 1997 financial statements in conformity with the Western Turnpike and Metropolitan Highway System structure, management has made allocations of certain revenues, expenses, asset and liabilities between the Western Turnpike and the Metropolitan Highway System portions of the Massachusetts Turnpike for the year. The allocations represent management's best estimate of what the actual amounts applicable to the Western Turnpike and Metropolitan Highway System would have been had the current structure been in place as of January 1, 1997.

The combining balance sheet as of December 31, 1998 (Schedule 1) and the combining statement of revenues, expenses and changes in retained earnings (Schedule 2) along with the independent auditors' report on the supplementary information are presented on pages 20, 21 and 22.



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Independent Auditors' Report on Supplementary Information

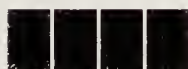
Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited and reported separately on the financial statements of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated March 11, 1999. Our report is qualified because of insufficient audit evidence to support the disclosures with respect to the Year 2000 issue made in note 13 of the Authority's financial statements. Our report refers to the adoption of Governmental Accounting Standards Board Statement Nos. 27, 31 and 32.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The combining balance sheet as of December 31, 1998 (Schedule 1) and the combining statement of revenues, expenses and changes in retained earnings for the year then ended (Schedule 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

March 11, 1999



Combining Balance Sheet

December 31, 1998

Assets	Metropolitan Highway System (MHS)	Western Turnpike (WT)	General Fund	Eliminations	Combined Totals
Current assets:					
Cash and cash equivalents	\$ 8,880,684	6,604,718	10	—	15,485,412
Restricted investments	97,085,788	13,718,739	96,913,759	—	207,718,286
Receivables	3,842,857	5,093,281	129,219	—	9,065,357
Inventories	127,524	1,030,772	—	—	1,158,296
Prepaid expenses	80,698	38,724	—	—	119,422
Due from other funds	2,889,003	6,602,483	1,877,766	(11,369,252)	—
Total current assets	<u>112,906,554</u>	<u>33,088,717</u>	<u>98,920,754</u>	<u>(11,369,252)</u>	<u>233,546,773</u>
Restricted investments	417,676,647	63,057,488	—	—	480,734,135
Property, plant and equipment	1,301,599,292	649,365,447	—	—	1,950,964,739
Less accumulated depreciation	(206,473,254)	(269,738,820)	—	—	(476,212,074)
Total property, plant and equipment, net	<u>1,095,126,038</u>	<u>379,626,627</u>	<u>—</u>	<u>—</u>	<u>1,474,752,665</u>
Other assets	2,974,683	2,406,405	—	—	5,381,088
Total assets	<u>\$ 1,628,683,922</u>	<u>478,179,237</u>	<u>98,920,754</u>	<u>(11,369,252)</u>	<u>2,194,414,661</u>
Liabilities and Fund Equity					
Current liabilities:					
Accounts payable	\$ 2,121,813	5,524,804	—	—	7,646,617
Accrued payroll	320,572	914,678	—	—	1,235,250
Compensated absences	2,175,653	4,924,414	—	—	7,100,067
Other accrued expenses, deferred credits and miscellaneous liabilities	11,535,956	15,843,488	—	—	27,379,444
Due to other funds	5,777,424	5,591,828	—	(11,369,252)	—
Amounts payable from restricted investments:					
Current portion of bonds and notes payable	55,905,000	24,330,000	—	—	80,235,000
Accrued interest	33,909,278	8,256,180	—	—	42,165,458
Total current liabilities	<u>111,745,696</u>	<u>65,385,392</u>	<u>—</u>	<u>(11,369,252)</u>	<u>165,761,836</u>
Accrued interest on capital appreciation bonds	9,554,287	—	—	—	9,554,287
Bonds and notes payable, net	1,371,945,441	271,392,543	—	—	1,643,337,984
Total liabilities	<u>1,493,245,424</u>	<u>336,777,935</u>	<u>—</u>	<u>(11,369,252)</u>	<u>1,818,654,107</u>
Retained earnings	135,438,498	141,401,302	98,920,754	—	375,760,554
Total liabilities and fund equity	<u>\$ 1,628,683,922</u>	<u>478,179,237</u>	<u>98,920,754</u>	<u>(11,369,252)</u>	<u>2,194,414,661</u>

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Year ended December 31, 1998

	Metropolitan Highway System (MHS)	Western Turnpike (WT)	General Fund	Eliminations	Combined Totals
Operating revenues:					
Toll revenue (net)	\$ 83,137,706	94,302,737	—	—	177,440,443
Restaurants concessions and service stations		6,065,238	—	—	6,065,238
Rental income	4,030,523	2,554,048	—	—	6,584,571
Court fines	1,249,421	2,946,994	—	—	4,196,415
Other income	1,995,395	876,838	—	—	2,872,233
Total operating revenues	<u>90,413,045</u>	<u>106,745,855</u>	<u>—</u>	<u>—</u>	<u>197,158,900</u>
Operating expenses:					
Operations and public protection	27,396,766	44,960,658	—	—	72,357,424
Repair and reconstruction	6,937,356	9,278,182	—	—	16,215,538
Administration	8,631,396	12,466,618	—	—	21,098,014
Retirement	904,153	1,679,143	—	—	2,583,296
Depreciation and amortization	27,503,555	16,920,184	—	—	44,423,739
Total operating expenses	<u>71,373,226</u>	<u>85,304,785</u>	<u>—</u>	<u>—</u>	<u>156,678,011</u>
Operating income	19,039,819	21,441,070	—	—	40,480,889
Nonoperating revenue and expense:					
Investment income	62,333,760	3,494,048	5,548,716	—	71,376,524
Interest expense	(87,101,031)	(16,612,214)	—	—	(103,713,245)
Total nonoperating (expense) revenue, net	<u>(24,767,271)</u>	<u>(13,118,166)</u>	<u>5,548,716</u>	<u>—</u>	<u>(32,336,721)</u>
Income before interfund transfers	(5,727,452)	8,322,904	5,548,716	—	8,144,168
Interfund transfers	420,815	7,534,102	(7,954,917)	—	—
Net income (loss)	(5,306,637)	15,857,006	(2,406,201)	—	8,144,168
Retained earnings, beginning of year	140,745,135	125,544,296	101,326,955	—	367,616,386
Retained earnings, end of year	<u>\$ 135,438,498</u>	<u>141,401,302</u>	<u>98,920,754</u>	<u>—</u>	<u>375,760,554</u>



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Directors
Massachusetts Turnpike Authority:

We have audited the financial statements of the Massachusetts Turnpike Authority, a component unit of the Commonwealth of Massachusetts (the "Authority"), as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated March 11, 1999. Our report is qualified because of the insufficient audit evidence to support the disclosures with respect to the Year 2000 issue made in note 13 of the Authority's financial statements. Our report refers to the adoption of Governmental Accounting Standards Board Statement Nos. 27, 31 and 32. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Massachusetts Turnpike Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

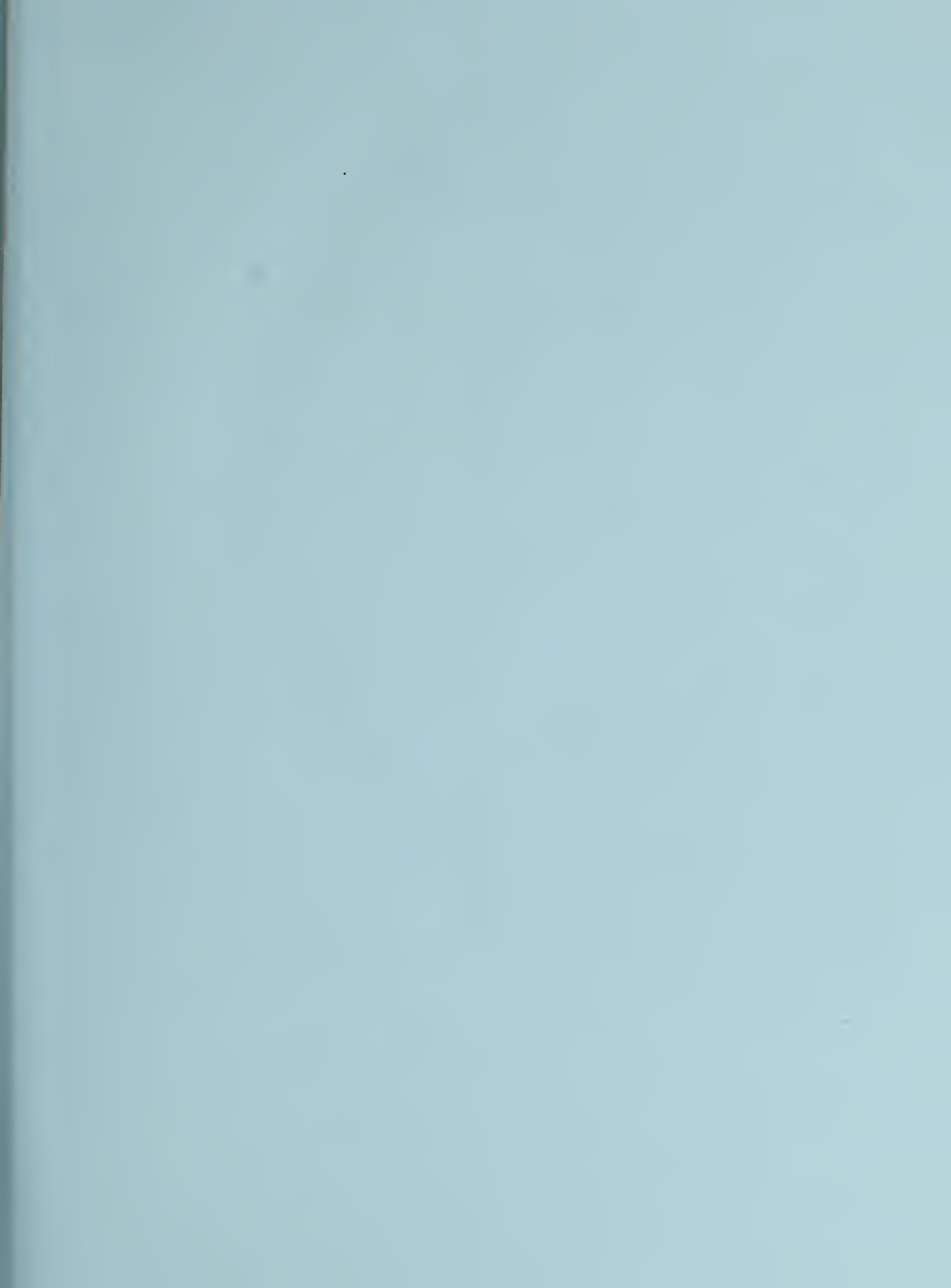
In planning and performing our audits, we considered the Massachusetts Turnpike Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting or its operation that we consider to be material weaknesses.

This report is intended for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

KPMG Peat Marwick LLP

March 11, 1999





MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED
DECEMBER 31, 1998 AND 1997

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

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YEARS ENDED
DECEMBER 31, 1998 AND 1997

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March 19, 1999

Massachusetts Turnpike Authority
Employees' Retirement System
Boston, Massachusetts

Re: Independent Auditor's Report

Members of the Board:

We have audited the accompanying statements of plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System ("Retirement System") as of December 31, 1998 and 1997, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1998 and 1997, and the changes in plan net assets for the years then ended, in conformity with generally accepted accounting principles.



The schedules of required supplementary information (schedule of funding progress and schedule of employer contributions) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

DI PESA & COMPANY

A handwritten signature in black ink, appearing to read 'Di Pesa & Company', written in a cursive style.

Certified Public Accountants

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
Cash and Cash Equivalents (Note 5)	\$ <u>10,564,419</u>	\$ <u>8,667,537</u>
Investments, at Fair Value (Note 5)		
U.S. Government Securities	12,869,281	28,808,183
Equities - Combined Investment Funds	63,451,501	39,672,686
Mortgage Certificates	19,964,180	12,960,708
Asset Backed Securities	5,594,136	2,565,376
Pooled Domestic Balanced Fund	32,893,414	36,020,646
Pooled International Equity Fund	13,540,795	11,867,288
Miscellaneous Notes and Bonds	<u>13,847,282</u>	<u>8,749,730</u>
<u>Total Investments</u>	162,160,589	140,644,617
Accounts Receivable	346,415	150,402
Interest and Dividends Receivable	<u>598,886</u>	<u>632,942</u>
 <u>TOTAL ASSETS</u>	 173,670,309	 150,095,498
 <u>LIABILITIES</u>	 (<u>1,570,776</u>)	 (<u>549,373</u>)
 NET ASSETS HELD IN TRUST <u>FOR PENSION BENEFITS</u>	 \$172,099,533	 \$ 149,546,125
(A schedule of Funding Progress is presented in Supplementary Information)	<u><u> </u></u>	<u><u> </u></u>

See Independent Auditor's Report and accompanying notes.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

<u>ADDITIONS</u>	<u>1998</u>	<u>1997</u>
<u>INVESTMENT INCOME</u>		
Net Appreciation in Fair Value of Investments	\$ 19,297,026	\$ 9,400,057
Net Investment Income	<u>5,710,276</u>	<u>8,321,629</u>
<u>TOTAL INVESTMENT INCOME</u>	<u>25,007,302</u>	<u>17,721,686</u>
<u>CONTRIBUTIONS (Note 3)</u>		
Employer	2,577,577	2,947,598
Employee	<u>4,206,222</u>	<u>4,196,445</u>
<u>TOTAL CONTRIBUTIONS</u>	<u>6,783,799</u>	<u>7,144,043</u>
<u>OTHER ADDITIONS TO PLAN ASSETS</u>		
Transfer from Other Systems	419,230	647,645
Section 3(8)(c) Reimbursements Received	<u>494,294</u>	<u>373,504</u>
<u>TOTAL ADDITIONS</u>	<u>32,704,625</u>	<u>25,886,878</u>
<u>DEDUCTIONS</u>		
Benefits Paid - Pension Payments	7,147,390	7,209,284
Benefits Paid - Annuity Payments	1,252,559	1,230,827
Member Refunds	1,234,292	924,579
Administrative Expenses	311,009	326,686
Section 3(8)(c) Reimbursements Paid	64,429	59,952
Amortization - Principal Adjustment Account	-	2,687
Transfers to Other Systems	<u>141,538</u>	<u>233,882</u>
<u>TOTAL DEDUCTIONS</u>	<u>10,151,217</u>	<u>9,987,897</u>
<u>NET INCREASE IN PLAN NET ASSETS</u>	<u>22,553,408</u>	<u>15,898,981</u>
<u>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</u>		
Beginning of Year	<u>149,546,125</u>	<u>133,647,144</u>
End of Year	<u>\$172,099,533</u>	<u>\$149,546,125</u>

See Independent Auditor's Report and accompanying notes.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

1. DESCRIPTION OF PLAN

The following description of the Massachusetts Turnpike Authority Employees' Retirement Plan ("Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

- (a) General - The Plan is a single employer, defined benefit pension plan. It is subject to the provisions of Chapter 32 of the Massachusetts General Laws. The Plan covers substantially all Massachusetts Turnpike Authority employees. Membership in the Plan consisted of the following at January 1, 1998, the date of the latest actuarial update.

Active Plan Members	1,293
Inactives	71
Retirees Beneficiaries, Disabled and Vested	
Terminated	606

Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued on those deductions.

- (b) Pension Benefits - Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three year average annual rate of regular compensation. Benefit payments are based upon a participants age, length of creditable service, level of compensation, and group classification. Participants become vested after 10 years of creditable service. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the state legislature.
- (c) Death and Disability Benefits - If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or not the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

1. DESCRIPTION OF PLAN (Continued)

- (d) Early Retirement Incentive Program - The Massachusetts Turnpike Authority (the "Authority") was "authorized to develop and implement an early retirement process for its employees" by provision of Section 312 of Chapter 110 of the Acts of 1993. The process was subsequently approved by the House and Senate Ways and Means Committees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Contributions, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investment income is recognized as earned by the Plan. The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as of the date of the Statements of Plan Net Assets. Realized gain (loss) on individual securities sold within the trust funds are shown in investment income.
- (b) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.
- (c) Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.
- (d) Reclassifications - Certain 1997 amounts have been reclassified to conform with 1998 presentation.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (e) Cash Equivalents - The Plan considers investments purchased with original maturities of three months or less to be cash equivalents.

3. FUNDING POLICY

As a condition of participation, employees are required to contribute 5% of their salary if hired prior to January 1, 1975, 7% if hired after that date and before January 1, 1984, 8% if hired after that date and before July 1, 1996, and 9% if hired after July 1, 1996. Employees hired after January 1, 1979, contribute an additional 2% of earnings in excess of \$30,000 per year. Overtime and extra pay are not subject to these assessments. The Massachusetts Turnpike Authority contributes to the Massachusetts Turnpike Authority Employees' Retirement System. In 1997 and 1998, appropriations were received from the Massachusetts Turnpike Authority to provide for the following years retirement benefits. These appropriations included reimbursements for administrative costs to the plan. The actuarial assumption of these reimbursements being included in the appropriations were not considered in the most recent actuarial report dated January 1, 1998. These appropriations are made in accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration Commission.

4. PLAN OBLIGATION

Chapter 32, Section 25(4) of the Massachusetts General Laws states that the payment of all annuities, pensions, retirement allowances, and refunds of accumulated total deductions and of any other benefits granted under the provisions of Sections 1 - 28, inclusive, are obligations of the Massachusetts Turnpike Authority, the governmental entity in which the Plan is established.

5. INVESTMENTS AND CASH EQUIVALENTS

Category One bank deposits and investments are fully insured or collateralized with securities held by the System's Agent and in the System's name. There are no Category Two or Three credit risk deposits or investments. These categories of risk assessments are prescribed by Statement No. 3, paragraphs 67 and 68, of the Government Accounting Standards Board.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

5. INVESTMENTS AND CASH EQUIVALENTS (Continued)

The Category One risk assessments for investments at Carrying Value for the years ended December 31, 1998 and 1997 are as follows:

	<u>1998</u>	<u>1997</u>
U.S. Government Securities	\$ 12,869,281	\$ 28,808,183
Equities Combined Investment Funds	63,451,501	39,672,686
Mortgage Certificates	19,964,180	12,960,708
Asset Backed Securities	5,594,136	2,565,376
Miscellaneous Notes and Bonds	13,847,282	8,749,730
Pooled Domestic Balanced Fund	32,893,414	36,020,646
Pooled International Equity Fund	<u>13,540,795</u>	<u>11,867,288</u>
<u>TOTALS</u>	<u>\$162,160,589</u>	<u>\$140,644,617</u>

The carrying amount of the Plan's deposits with financial institutions is \$10,564,418 and \$8,667,537 for 1998 and 1997, respectively. The Category One risk assessments for cash equivalents at the Bank Balance for the years ended December 31, 1998 and 1997 are as follows:

	<u>1998</u>	<u>1997</u>
Cash Equivalents	\$ <u>10,413,674</u>	\$ <u>8,534,148</u>
<u>TOTALS</u>	<u>\$ 10,413,674</u>	<u>\$8,534,148</u>

6. CONCENTRATION OF CREDIT RISK

The Plan maintains cash balances at several banks and investment companies. Cash accounts in each financial institution are insured by the Federal Deposit Insurance Corporation (up to \$100,000). Investments are not insured against market fluctuations, however, they are insured against fraud by investment managers.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

7. CONTINGENCIES

There are various pending claims arising in the ordinary course of operations, however, management estimates that the probable liability resulting from such litigation would not materially affect the Plans' financial position.

Massachusetts General Law (M.G.L. c.32, s.20.03(1)) restricts investments in international equities to 5% of the portfolio Market Value. The Plan obtained a waiver to this regulation in 1997 from the Commonwealth of Massachusetts Division of Public Retirement Administration Commission. Without this waiver the Plan would be in violation of this law.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 1998 AND 1997

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation <u>Date</u>	Actuarial Value of Plan <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Unfunded AAL (UAAL) <u>(2)-(3)</u>	Actuarial Value of Assets as a Percentage of AAL (Funded Ratio) <u>(2)/(3)</u>	Annual Covered <u>Payroll</u>	UAAL as a Percentage of Covered Payroll <u>(4)/(6)</u>
1/1/94	\$ 98,143,844	\$ 98,868,063	\$ 724,219	99.3%	\$46,432,773	1.6%
1/1/95	105,025,937	107,691,737	2,665,800	97.5%	49,311,019	5.4%
1/1/96	114,569,547	117,383,869	2,814,322	97.6%	54,849,372	5.1%
1/1/97	128,744,051	135,620,702	6,876,651	94.9%	48,878,082	14.1%
1/1/98	149,546,125	143,697,064	(5,849,061)	104.1%	48,254,760	-12.1%

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 1998 AND 1997

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contributions of</u> <u>Employer</u>	<u>Percentage</u> <u>Contributed</u>
1992	\$1,810,556	89.3%
1993	1,919,523	100%
1994	1,919,738	100%
1995	2,182,803	100%
1996	2,443,952	100%
1997	2,657,949	100%
1998	* 2,888,871	100%

*Revised FY '98 Appropriation per PERAC dated January 5, 1998.

MASSACHUSETTS TURNPIKE AUTHORITY
EMPLOYEES' RETIREMENT SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 1998 AND 1997

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 1998, the date of the latest actuarial update.

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollars
Amortization Period	10 Years
Actuarial Assumptions:	
Investment Rate of Return	8.5%
Projected Salary Increases	5.0%
Inflation Rate	3.0%
Cost of Living Adjustment	3.0% On retirees annual benefits not in excess \$12,000.

